



DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

December 18, 2003

Honorable Wesley Chesbro, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Jenny Oropeza, Chair
Assembly Budget Committee

Honorable Dede Alpert, Chair
Senate Appropriations Committee

Honorable Darrell Steinberg, Chair
Assembly Appropriations Committee

Notification of Department of Finance Position on Deficiency Authorization

Section 27.00

In order to fulfill the Governor's commitment to provide resources to local governments related to the state's car tax, the Department is transmitting notification of our intent to adjust current year expenditures, pursuant to the provisions of Section 27.00(b) of the 2003 Budget Act, as well as our emergency approval to spend at a rate that will incur a deficiency pursuant to Sections (d) and (e) of the 2003 Budget Act.

Absent an action by the State, we estimate that as of January 10, 2004, local governments will be owed approximately \$530 million in non-realignment vehicle license fee (VLF) revenues, including amounts previously withheld for taxpayer refunds, as well as new offset amounts that have not been funded due to the lack of an adequate General Fund appropriation. While this estimate of the amount owed to date is subject to adjustment and the actual amount will vary depending on the level of overpayments and refunds, the total amount of VLF revenue shortfall for the entire 2003-04 fiscal year is approximately \$2.652 billion.

Local governments rely on these funds for a variety of services including essential public safety purposes. In addition, certain counties have pledged these funds as a source of repayment for bonded indebtedness. Continued uncertainty over when these payments will resume will compel local governments to contemplate layoffs and other reductions. Failure to promptly pay these funds would constitute a situation of extreme peril that threatens the health and safety of persons and property. Moreover, Section 10754 of the Government Code provides the State shall pay local government an amount equal to the VLF offsets.

Therefore, the Department of Finance has approved a deficiency appropriation in the amount of \$2,503,164,000 from the General Fund to replace the revenue loss to local governments from VLF offsets. The 2003 Budget Act provided an in-lieu appropriation of \$1,000 for this purpose because, at that time, the offset was suspended pursuant to actions taken by the prior Administration. Except for an initial gap period as detailed below, local governments were expected to receive funding from higher taxpayer payments, so replacement revenues were not believed necessary.

Chapter 231, Statutes of 2003, anticipated that local governments would loan \$825 million to the General Fund in the first part of the fiscal year due to the lag, or gap, in implementing the higher vehicle license fees. Pursuant to Chapter 231/03, this loan would be repaid in 2006-07. In November 2003, the Department of Motor Vehicles provided estimates to the Department of Finance that indicated that the amount of loan from local governments due to the implementation lag had increased to nearly \$1.3 billion, rather than the \$825 million that had been anticipated.

On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, which stated that the prior Administration's suspension of the VLF offsets was in error in that it was not based on a reasonable interpretation of the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

In addition, on November 17, 2003, Governor Schwarzenegger convened a special session of the Legislature to, among other things, act upon legislation to fund the offset of motor vehicle license fees from the General Fund. In its mid-year spending proposals, the Administration indicated that fully funding the offset in excess of the \$825 million loan amount would require \$3.625 billion. However, consistent with the loan provisions in Chapter 231/03, the Administration requested the Legislature to increase the local government loan from \$825 million to \$1.3 billion due to the implementation lag. As a result, the proposed appropriation required to fund the VLF offset for the remainder of the 2003-04 fiscal year was reduced to \$3.15 billion based on the 2003 Budget Act estimates. Unfortunately, the Legislature recessed without acting upon this request.

In assessing the funding needs for this program during the development of the 2004 Governor's Budget, we now estimate that the amount needed to fund the offset in the 2003-04 fiscal year is \$2.652 billion over the \$1.3 billion "gap" amount.

The Department of Finance will be transferring a total of \$148,836,000 of expenditure authority from the items noted below to Item 9100-102-0001. These items are all included as part of the 2003-04 Mid-Year Spending Reduction Proposals and in accordance with Section 27.00(b) of the 2003 Budget Act, the transfer does not exceed 5 percent of the total appropriations for these items.

<u>Item 2240-101-0001</u>	- \$140,000
Housing and Community Development—Close Low-Occupancy Migrant Farmworker Housing Center in Blythe	
<u>Item 2740-001-0001</u>	- \$30,000
Department of Motor Vehicles—Reduce General Fund Support	
<u>Item 5160-001-0001</u>	- \$854,000
Department of Rehabilitation—Caseload Savings in Vocational Rehabilitation Services	
<u>Item 5175-001-0001</u>	- \$310,000
Department of Child Support Services—Unspent Funds due to Program Delays	

<u>Item 5175-002-0001</u> Department of Child Support Services—Unspent Funds due to Program Delays	-\$566,000
<u>Item 5175-101-0001</u> Department of Child Support Services—Administration—Unspent Funds due to Program Delays	-\$1,069,000
<u>Item 5180-111-0001</u> Department of Social Services—Transfer Maximum Amount of Federal Funds from CalWORKs to Achieve General Fund Savings	-\$41,100,000
<u>Item 6440-001-0001</u> University of California—Reduce Funding for Labor Studies Unit	-\$2,000,000
<u>Item 6440-001-0001</u> University of California—Unallocated Reduction	-\$15,719,000
<u>Item 6440-001-0001</u> University of California—Outreach Funding	-\$12,209,000
<u>Item 6610-001-0001</u> California State University—Unallocated Reduction	-\$11,276,000
<u>Item 6610-001-0001</u> California State University—Outreach Funding	-\$12,453,000
<u>Item 6600-001-0001</u> Hastings College of Law—Unallocated Reduction	-\$302,000
<u>Item 7350-001-0001</u> Department of Industrial Relations—Current-Year Position Reductions	-\$808,000
<u>Item 7980-101-0001</u> Student Aid Commission—Savings from Unspent Cal Grant Funds	-\$50,000,000
<u>Item 9100-102-0001</u> Local Assistance, Tax Relief	+\$148,836,000
Total	\$0

In addition, this action will result in the Controller allocating funds to local governments at a rate that will result in a deficiency of \$2,503,164,000 in Item 9100-102-0001.

Section 28.00

In accordance with Section 28.00 of the 2003 Budget Act, the Department of Social Services requests authorization to increase federal expenditure authority within Item 5180-111-0890.

Item 5180-111-0890

The Department of Finance is also approving an increase in federal expenditure authority in Item 5180-111-0890. Increased authority is needed in the In-Home Supportive Services program to allow \$41.1 million in federal Temporary Assistance for Needy Families Block Grant funds to be transferred to the federal Social Services Block Grant and used to offset General Fund costs in the program. This, in turn, would allow General Funds to be redirected to Local Governments to offset the reduction in the Vehicle License Fee.

The Department believes that the actions being taken under Section 27.00 (b), combined with the mid-year spending reduction proposals still before the Legislature and proposals for savings forthcoming in the 2004 Governor's Budget, will provide sufficient savings in the 2003-04 fiscal year to ensure that the deficiency in Item 9100-102-0001 does not result in a 2003-04 General Fund deficit at the end of the fiscal year.

Please call Matt Paulin, Principal Program Budget Analyst, at (916) 322-2263 if you have any questions.



DONNA ARDUIN
Director

Attachment

cc: Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable John Campbell, Vice Chair, Assembly Budget Committee
Honorable Rick Keene, Assemblymember, Assembly Budget Committee
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Rudy Bermudez, Chair, Assembly Budget Subcommittee No. 4
Ms. Elizabeth Hill, Legislative Analyst (3)
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Ms. Anne Maitland, Staff Director, Senate Appropriations Committee
Mr. Jeff Bell, Fiscal Director, Senate Minority Fiscal Office
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Minority Fiscal Committee
Mr. Kevin Bassett, Chief Consultant, Assembly Republican Leader's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)

STATE OF CALIFORNIA
SECTION 28.00/28.50 APPLICATION
DF-47 (REV 05/97)

Department of Finance
915 - L Street
Sacramento, CA 95814
IMS Mail Code: A-15

Please report dollars in thousands.

DEPARTMENT Social Services	ITEM NO./ FISCAL YEAR 5180-111-0890 2003-04	NOTIFICATION LETTER TO LEGISLATURE: <input checked="" type="checkbox"/> 30 DAY NOTICE <input type="checkbox"/> REQUEST WAIVER OF 30 DAY NOTICE	
REQUESTED FUNDING ADJUSTMENT <input checked="" type="checkbox"/> SECTION 28.00 <input type="checkbox"/> Section 28.50		PROGRAM TITLE PER GOVERNOR'S BUDGET: Social Services and Licensing	
FUNDING (SPECIFY FUND)	CURRENTLY BUDGETED	REQUESTED CHANGE (+) OR (-)	TOTAL
0890 Federal (25.15.010)	61,389,576	+41,100,000	102,489,576

CHECK APPROPRIATE BOX(ES)

- ☒ PROVISIONS 1-4 OF SECTION 28 (B) HAVE BEEN SATISFIED. (Provide additional information as necessary.)
☐ ONE-TIME EXPENDITURE.
☐ ONGOING COMMITMENT FROM THIS SOURCE.
☒ STATE MATCHING FUNDS REQUIRED. (If checked, explain under program proposal.)
☒ EXPENDITURE EITHER SUPPLEMENTS OR REPLACES AN EXISTING STATE-FUNDED PROGRAM. (If checked, explain under program proposal.)

PROGRAM PROPOSAL (Attach additional information as necessary.)

TITLE: TANF to Title XX Transfer to IHSS Services	STATUTORY AUTHORITY: (State, federal, as appropriate) Section 28.00 Budget Act of 2002
DESCRIPTION: Increase federal expenditure authority in the In-Home Supportive Services (IHSS).	

JUSTIFICATION: (Must include need for current year implementation and reason it can't wait till next fiscal year.)
Increased federal expenditure authority is requested for In-Home Supportive Services. State Legislation permits Title XX funds to be used in the IHSS Residual Program to supplant the State share. The Title XX Block Grant funds that were previously designated for IHSS have been replaced with TANF-Title XX Funds.

SUBMITTED BY:		APPROVED BY DEPARTMENT OF FINANCE:	
BUDGET OFFICER: <i>Chad R. Davis III</i>	DATE: 12/16/03	DATE SUBMITTED TO LEGISLATURE:	
DIRECTOR: <i>Lamorne Mitchell</i>	DATE: 12-16-03	PPBA:	DATE: